

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (CHFFA)

BOND FINANCING PROGRAM

EXECUTIVE SUMMARY

| <p>Applicant: St. Joseph Health System and Affiliates (“SJHS”) 500 South Main Street, Suite 1000 Orange, California (Orange County)</p> <p>Obligated Group: See pages 7 and 8</p> <p>Project Sites: See Exhibit 1</p> <p>Facility Types: General acute/sub acute and outpatient care</p> | <p>Amount Requested: \$480,000,000</p> <p>Date Requested: July 30, 2009</p> <p>Requested Loan Term: 30 years</p> <p>Resolution Number: 346</p> | | | | | | | | | | | | | | | | |
|--|--|-----------|----------------|--------------------------------|---|---|-----------|----------------------|------------|----------------------------|-------------|----------------------------------|-------|-----------------|--------------|------------|------------------|
| <p>Background: SJHS is a nonprofit health system providing health care services throughout California, Western Texas and Eastern New Mexico.</p> | | | | | | | | | | | | | | | | | |
| <p>Use of Proceeds: Bond proceeds will be used to current refund the California Statewide Communities Development Authority (CSCDA) Bonds Series 2008 A, B and C. In addition, bond proceeds will be used for the reimbursement of prior expenditures related to new construction and equipment.</p> | | | | | | | | | | | | | | | | | |
| <p>Type of Issue: Negotiated public offering with fixed rate/variable rate intermediate term put bonds</p> <p>Credit Enhancement: None</p> <p>Expected Credit Rating: AA-/Aa3 (S&P/Moody’s)</p> <p>Senior Underwriter: Morgan Stanley</p> <p>Bond Counsel: Sidley Austin LLP</p> | | | | | | | | | | | | | | | | | |
| <p>Financial Overview: SJHS’ income statement appears to exhibit solid operating results with positive net income over the review period along with continued revenue growth. SJHS’ balance sheet also appears solid with a strong debt service coverage ratio and growing net assets. The proforma debt service coverage ratio remains relatively unchanged at 2.20x.</p> | | | | | | | | | | | | | | | | | |
| <p>Patient Accounts Receivable (FYE June 30, 2008):</p> <table border="0"> <thead> <tr> <th></th> <th align="right"><u>Percent</u></th> </tr> </thead> <tbody> <tr> <td>Government (Medicare/Medicaid)</td> <td align="right">38%</td> </tr> <tr> <td>Contracted (private sponsored managed care)</td> <td align="right">42%</td> </tr> <tr> <td>Other (Other payors)</td> <td align="right"><u>20%</u></td> </tr> <tr> <td>Total</td> <td align="right"><u>100%</u></td> </tr> </tbody> </table> | | | <u>Percent</u> | Government (Medicare/Medicaid) | 38% | Contracted (private sponsored managed care) | 42% | Other (Other payors) | <u>20%</u> | Total | <u>100%</u> | | | | | | |
| | <u>Percent</u> | | | | | | | | | | | | | | | | |
| Government (Medicare/Medicaid) | 38% | | | | | | | | | | | | | | | | |
| Contracted (private sponsored managed care) | 42% | | | | | | | | | | | | | | | | |
| Other (Other payors) | <u>20%</u> | | | | | | | | | | | | | | | | |
| Total | <u>100%</u> | | | | | | | | | | | | | | | | |
| <p><u>Estimated Sources of Funds (000’s):</u></p> <table border="0"> <tr> <td>Bond proceed</td> <td align="right">\$480,000</td> </tr> <tr> <td>Total Sources</td> <td align="right"><u>\$480,000</u></td> </tr> </table> | Bond proceed | \$480,000 | Total Sources | <u>\$480,000</u> | <p><u>Estimated Uses of Funds (000’s):</u></p> <table border="0"> <tr> <td>Refunding bonds</td> <td align="right">\$242,500</td> </tr> <tr> <td>Reimbursement</td> <td align="right">180,000</td> </tr> <tr> <td>Debt Service Reserve Fund*</td> <td align="right">48,000</td> </tr> <tr> <td>Contingency for Discount Bonds**</td> <td align="right">4,900</td> </tr> <tr> <td>Financing costs</td> <td align="right"><u>4,600</u></td> </tr> <tr> <td>Total Uses</td> <td align="right"><u>\$480,000</u></td> </tr> </table> <p><i>*Fund Debt Service Reserve, if market conditions warrant</i></p> <p><i>**Contingency in not-to-exceed par amount in case market conditions at time of pricing require use of discount bonds</i></p> | Refunding bonds | \$242,500 | Reimbursement | 180,000 | Debt Service Reserve Fund* | 48,000 | Contingency for Discount Bonds** | 4,900 | Financing costs | <u>4,600</u> | Total Uses | <u>\$480,000</u> |
| Bond proceed | \$480,000 | | | | | | | | | | | | | | | | |
| Total Sources | <u>\$480,000</u> | | | | | | | | | | | | | | | | |
| Refunding bonds | \$242,500 | | | | | | | | | | | | | | | | |
| Reimbursement | 180,000 | | | | | | | | | | | | | | | | |
| Debt Service Reserve Fund* | 48,000 | | | | | | | | | | | | | | | | |
| Contingency for Discount Bonds** | 4,900 | | | | | | | | | | | | | | | | |
| Financing costs | <u>4,600</u> | | | | | | | | | | | | | | | | |
| Total Uses | <u>\$480,000</u> | | | | | | | | | | | | | | | | |
| <p>Legal Review: Staff has reviewed the applicant’s responses to the questions contained in the Legal Status portion of the application. The information that was disclosed does not appear to question the financial viability or legal integrity of this applicant.</p> | | | | | | | | | | | | | | | | | |
| <p>Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$480,000,000 for St. Joseph Health System and Affiliates subject to a bond rating of at least an “A” category rating by a nationally recognized rating agency.</p> | | | | | | | | | | | | | | | | | |

STAFF SUMMARY AND RECOMMENDATION

**St. Joseph Health System and Affiliates
("SJHS")**

July 30, 2009

Resolution Number: 346

I. POLICY ISSUES:

The Authority adopted bond issuance guidelines in September 2000 which includes a minimum debt service coverage of 1.25x. The Authority acknowledged each financing must be reviewed individually and exceptions to these guidelines may be considered if the applicant demonstrates that such exception is a necessary part of a cost-effective and prudent borrowing strategy. In consideration of the historical and current financial strength of St. Joseph Health System and Affiliates (its current proforma debt service coverage is a solid 2.20x) staff recommends permitting a minimum debt service coverage of 1.10x. This will allow SJHS to comply with its Master Indenture dated December 1, 1983.

II. PURPOSE OF FINANCING:

SJHS seeks to use approximately \$242.5 million in bond proceeds to current refund long-term debt for projects throughout California. The refunding bonds will be issued as put bonds, replacing variable rate demand bonds (VRDB). In addition, SJHS plans to use approximately \$180 million in fixed rate bonds for reimbursement of prior expenditures related to new construction and equipment.

Refunding existing debt..... \$242,500,000

SJHS seeks to current refund the CSCDA Series 2008 A, B and C Bonds. Bond proceeds were used for various capital improvement projects for SJHS California hospitals. SJHS' plan is to issue fixed rate and put bonds, replacing the current VRDB bonds (weekly mode), which are supported by SJHS' own self-liquidity.

Reimbursement of prior expenditures..... 180,000,000

SJHS plans to use fixed rate bond proceeds for reimbursement of prior expenditures related to the new construction and equipment at the Mission Hospital, St. Jude Medical Center, Queen of the Valley Hospital, Santa Rosa Memorial Hospital and St. Joseph Hospital of Eureka.

Debt Service Reserve Fund..... 48,000,000

Depending on market conditions, SJHS may allocate a portion of the bond proceeds to a debt service reserve.

Contingency for Discount Bonds 4,900,000

Depending on market conditions, SJHS may need to issue discount bonds, which would increase the required par amount. Requested not-to-exceed par amount has been increased for this contingency.

| | |
|--------------------------------------|--------------------------|
| <i>Financing Costs</i> | <u>4,600,000</u> |
| Cost of issuance | \$1,200,000 |
| Underwriters discount..... | 3,400,000 |
| <i>Total Uses of Funds</i> | <u>\$480,000,000</u> |

III. FINANCIAL STATEMENTS AND ANALYSIS:

St. Joseph Health System and Affiliates
Consolidated Income Statement of Operations (\$000's)

| | For the Year Ended June 30, | | |
|--|-----------------------------|---------------------|---------------------|
| | 2008 | 2007 | 2006 |
| Revenue and public support: | | | |
| Revenue | | | |
| Net patient service | \$ 3,113,053 | \$ 2,954,020 | \$ 2,731,426 |
| Premium | 746,237 | 644,472 | 555,873 |
| Other | 84,549 | 70,375 | 64,649 |
| Total revenue | <u>3,943,839</u> | <u>3,668,867</u> | <u>3,351,948</u> |
| Expenses: | | | |
| Compensation and benefits | 1,666,399 | 1,530,977 | 1,417,327 |
| Supplies and other | 730,690 | 716,561 | 668,363 |
| Professional fees and purchased services | 1,030,327 | 889,431 | 789,279 |
| Provision for doubtful accounts | 170,182 | 199,312 | 181,745 |
| Depreciation and amortization | 159,635 | 137,745 | 126,621 |
| Interest | 89,663 | 16,977 | 29,458 |
| Total expenses | <u>3,846,896</u> | <u>3,491,003</u> | <u>3,212,793</u> |
| Operating income | 96,943 | 177,864 | 139,155 |
| Nonoperating (losses) gains, net | <u>(78,397)</u> | <u>121,936</u> | <u>65,377</u> |
| | 18,546 | 299,800 | 204,532 |
| Change in net unrealized gains in investments | - | - | (10,176) |
| Unrealized gain (loss) for interest rate swaps | - | (17,968) | 46,868 |
| Cumulative effect of adoption of new accounting principles | - | (10,263) | - |
| Net assets released from restrictions and other | <u>20,917</u> | <u>44,568</u> | <u>1,022</u> |
| Increase in unrestricted net assets | 39,463 | 316,137 | 242,246 |
| Assets released from restriction, restricted | 13,654 | (13,486) | - |
| Restricted contributions and other | - | - | 26,028 |
| Increase in net assets | <u>53,117</u> | <u>302,651</u> | <u>268,274</u> |
| Net assets, beginning of year | 2,114,030 | 1,811,379 | 1,543,105 |
| Net assets, end of year | <u>\$ 2,167,147</u> | <u>\$ 2,114,030</u> | <u>\$ 1,811,379</u> |

St. Joseph Health System and Affiliates
Consolidated Balance Sheets (in \$000's)

| | As of June 30, | | |
|---|---------------------|---------------------|---------------------|
| | 2008 | 2007 | 2006 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 63,655 | \$ 107,351 | \$ 109,723 |
| Short-term marketable securities | 537,445 | 598,761 | 431,774 |
| Patient accounts receivable | 466,913 | 443,398 | 391,164 |
| Inventories and other | 135,311 | 114,862 | 87,976 |
| Total current assets | <u>1,203,324</u> | <u>1,264,372</u> | <u>1,020,637</u> |
| Long-term marketable securities | 676,089 | 339,051 | 113,036 |
| Assets limited as to use: | | | |
| Board designated | 144,712 | 482,089 | 627,039 |
| Held in trust | 266,137 | 362,467 | 65,421 |
| Total assets limited as to use | <u>410,849</u> | <u>844,556</u> | <u>692,460</u> |
| Property and equipment, net | 1,874,328 | 1,460,295 | 1,281,257 |
| Investments and other | 70,176 | 87,161 | 77,900 |
| Notes receivable | 9,697 | 10,309 | 9,453 |
| Deferred financing costs, net | 22,906 | 27,512 | 18,339 |
| Goodwill and other intangibles, less amortization | 70,748 | 76,350 | 68,234 |
| | <u>173,527</u> | <u>201,332</u> | <u>173,926</u> |
| Total assets | <u>\$ 4,338,117</u> | <u>\$ 4,109,606</u> | <u>\$ 3,281,316</u> |
| LIABILITIES AND NET ASSETS | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 135,197 | \$ 119,290 | \$ 111,619 |
| Accrued compensation and related liabilities | 284,637 | 279,979 | 258,558 |
| Accrued liabilities | 196,295 | 172,329 | 136,241 |
| Payable to third-party payors | 42,192 | 48,767 | 68,403 |
| Current maturities of long-term debt | 327,990 | 26,526 | 25,677 |
| | <u>-</u> | <u>-</u> | <u>462</u> |
| Total current liabilities | 986,311 | 646,891 | 600,960 |
| Other liabilities | 132,548 | 107,813 | 99,141 |
| Long-term debt, less current maturities | 1,052,111 | 1,240,872 | 769,836 |
| Total liabilities | <u>2,170,970</u> | <u>1,995,576</u> | <u>1,469,937</u> |
| Net assets | 2,167,147 | 2,114,030 | 1,811,379 |
| Total liabilities and net assets | <u>\$ 4,338,117</u> | <u>\$ 4,109,606</u> | <u>\$ 3,281,316</u> |

Financial Ratios:

| | Proforma (a) | | | |
|----------------------------------|----------------|------|-------|------|
| | FYE June, 2008 | 2008 | 2007 | 2006 |
| Debt service coverage (x) | 2.20 | 2.49 | 11.04 | 7.12 |
| Debt/Unrestricted Net Assets (x) | 0.75 | 0.52 | 0.62 | 0.46 |
| Margin (%) | | 2.46 | 4.85 | 4.15 |
| Current Ratio (x) | | 1.22 | 1.95 | 1.70 |

(a) Recalculates 2008 audited results to include the impact of this proposed financing.

Financial Discussion:

SJHS' income statement appears to exhibit solid operating results with positive net income over the review period along with continued revenue growth.

SJHS' income statement appears to exhibit solid profitability over our review period with operating income remaining profitable from \$139.1 million in fiscal year 2006 to \$96.9 million in fiscal year 2008. In addition, SJHS appears to have shown solid operating margins of 4.15%, 4.85%, and 2.46% for fiscal years ending 2006, 2007 and 2008, respectively. SJHS' revenues consist primarily of net patient service accounting for approximately 79% of total revenues in fiscal year 2008. Total revenue increased from \$3.3 billion in fiscal year 2006 to \$3.9 billion in fiscal year 2008, an increase of 17.6%. SJHS attributes the increase to patient volumes and negotiated increases in payer contract rates.

Although revenues have been kept in line with expenses, in fiscal year 2008 SJHS recorded non-operating investment losses of over \$78.4 million, which were primarily due to the change in the fair market value of investments - resulting in \$116.5 million in unrealized investment losses, coupled with a realized gain on investments of \$43.3 million. Additionally, there were charges of \$5.1 million in March 2008 related to the discontinuation of its psychiatric and skilled nursing units at Santa Rosa Memorial. These charges included employee severance, cancellation of leases, equipment disposal and other expenses incurred since operations have ceased in March 2008. Since March 2008, no significant revenues have been earned or expenses incurred related to these units except for the run-out of the building lease through March 2009. In fiscal year 2007, the operating loss for the closed units totaled \$4.4 million. According to management, no charges for discontinued operations are expected to be incurred in fiscal year 2009.

SJHS' balance sheet also appears solid with a strong debt service coverage ratio and growing net assets.

SJHS' balance sheet appears to continue growing with total net assets increasing from \$1.8 billion in fiscal year 2006 to \$2.1 billion in fiscal year 2008, an increase of nearly 19.5%. SJHS attributes the increase primarily from operations and philanthropy. Cash and cash equivalent declined from approximately \$109.7 million in fiscal year 2006 to \$63.6 million in fiscal year 2008, due Investment market conditions. Debt service coverage is a solid 2.49x and with the proposed financing will remain relatively unchanged at 2.20x, indicating that SJHS can likely manage additional debt.

IV. BACKGROUND:

St. Joseph Health System, a California nonprofit public benefit corporation headquartered in Orange, California (the “Corporation”) was incorporated in 1981 by its Roman Catholic order sponsor, the Congregation of the Sisters of St. Joseph of Orange (the “St. Joseph Congregation”), to become the sole corporate member and “parent” organization of the various corporations operating the St. Joseph Congregation’s hospitals and other affiliated healthcare entities then in existence. The healthcare activities of the hospitals in the Health System date back to 1920 with the founding of the St. Joseph Congregation’s first hospital, St. Joseph Hospital of Eureka.

Members of the Obligated Group:

Southern California Region

St. Joseph Hospital of Orange (“St. Joseph Orange”). St. Joseph Orange owns and operates a 525-licensed bed tertiary acute care facility, including a 37- licensed bed acute psychiatric facility located in Orange, California.

St. Jude Hospital, doing business as St. Jude Medical Center (“St. Jude”). St. Jude owns and operates a 359-licensed bed tertiary acute care facility, including a 37-licensed bed short-stay skilled nursing facility, in Fullerton, California.

Mission Hospital Regional Medical Center (“Mission Hospital”). Mission Hospital owns and operates a 301-licensed bed tertiary acute care facility, including a 13-licensed bed short-stay skilled nursing facility located in Mission Viejo, California.

St. Mary Medical Center (“St. Mary”). St. Mary owns and operates a 186-licensed bed acute care facility, including a 20-bed short-stay skilled nursing facility, which is the largest acute care medical center serving northeastern San Bernardino County.

Northern California Region

Queen of the Valley Hospital of Napa, California (“Queen of the Valley”). Queen of the Valley owns and operates a 192-licensed bed tertiary acute care facility, including a 24-bed, short-stay skilled nursing facility, which is the major medical center for residents of Napa County.

Santa Rosa Memorial Hospital (“Santa Rosa Memorial”). Santa Rosa Memorial is a major provider of medical services for residents of Sonoma, Lake and Mendocino Counties. Santa Rosa Memorial operates facilities totaling 345-licensed beds. Santa Rosa Memorial also operates an outpatient clinic in the city of Rohnert Park.

SRM Alliance Hospital Services, doing business as Petaluma Valley Hospital (“SRMAHS”). SRMAHS leases and operates Petaluma Valley Hospital, an 80-licensed bed hospital facility, located in Petaluma, California, from the Petaluma Valley Health Care District, a California local health care district.

St. Joseph Hospital of Eureka (“St. Joseph Eureka”). St. Joseph Eureka owns and operates a 189-licensed bed acute care facility that provides primary and/or tertiary services to Humboldt County and portions of the northern California counties of Trinity, Del Norte, and Siskiyou. St. Joseph Eureka also operates a freestanding outpatient center and two freestanding health clinics.

Redwood Memorial Hospital of Fortuna (“Redwood Memorial”). Redwood Memorial owns and operates a 35-licensed bed acute care facility. It provides acute medical/surgical care within an approximately 1,200 square mile area in southern Humboldt County.

West Texas/Eastern New Mexico Region

Covenant Health System (“CHS”). CHS directly owns and operates a 1,273-licensed bed hospital in Lubbock, Texas, serving West Texas and Eastern New Mexico. The hospital is currently licensed, certified and operated as a single hospital with multiple locations, consisting of a 422-licensed bed facility known as Covenant Medical Center-Lakeside and an 851-licensed bed acute care tertiary care facility known as Covenant Medical Center.

Methodist Children’s Hospital, dba Covenant Children’s Hospital (“Covenant Children’s”). Covenant Children’s operates a 76-licensed bed children’s hospital on the Covenant Medical Center campus. All administrative, clinical, nursing and other support services required for Covenant Children’s are provided at cost by Covenant Medical Center under a shared-service agreement between the two hospitals.

Methodist Hospital Levelland, dba Covenant Hospital Levelland (“Covenant Levelland”). Covenant Levelland leases and operates a 48-licensed bed general acute care hospital located in Levelland, Texas, approximately 30 miles west of Lubbock..

Methodist Hospital, Plainview, Texas, dba Covenant Hospital Plainview (“Covenant Plainview”). Covenant Plainview leases and operates a 100-licensed bed general acute care hospital located in Plainview, Texas, approximately 60 miles north of Lubbock, from Hale County Hospital Authority.

Affiliations

Lubbock Methodist Hospital System. CHS was formed in 1998 pursuant to an affiliation between the Corporation and Lubbock Methodist Hospital System and its affiliates. CHS became the sole corporate member of certain entities previously affiliated with Lubbock Methodist Hospital System and joined the Obligated Group.

CHS is governed by a 17-member board of directors. Lubbock Methodist Hospital System and the Corporation each appoint eight directors. The Corporation also appoints the Chief Executive Officer of CHS, who is an *ex-officio* voting director. The Corporation has extensive authority with respect to the financial affairs of CHS and its subsidiaries, including, but not limited to, the approval of budgets of CHS and its subsidiaries and selection and retention of auditors

Licenses and Contracts: Each of SJHS’ California facilities is appropriately licensed by the Department of Health Services and is certified to participate in the Medicare and Medi-Cal programs.

V. UTILIZATION STATISTICS:

St. Joseph Health System and Affiliates The Obligated Group Facilities Acute Care Utilization

| | Fiscal Year Ended June 30, | | |
|---|----------------------------|---------|---------|
| | 2006 | 2007 | 2008 |
| SOUTHERN CALIFORNIA REGION | | | |
| St. Joseph Hospital of Orange | | | |
| Operated Beds ⁽¹⁾ | 366 | 365 | 385 |
| Discharges ⁽²⁾ | 21,733 | 21,381 | 22,097 |
| Patient Days ⁽²⁾ | 88,183 | 86,074 | 87,063 |
| Average Length of Stay | 4.1 | 4.0 | 3.9 |
| % Occupancy Based on Operated Beds | 66.0 | 64.6 | 61.8 |
| Outpatient Visits (Including ER visits) | 233,953 | 257,577 | 263,674 |
| St. Jude Hospital, Inc., dba St. Jude Medical Center | | | |
| Operated Beds ⁽¹⁾ | 326 | 326 | 326 |
| Discharges ⁽²⁾ | 15,322 | 16,379 | 16,709 |
| Patient Days ⁽²⁾ | 80,990 | 81,376 | 80,927 |
| Average Length of Stay | 5.3 | 5.0 | 4.8 |
| % Occupancy Based on Operated Beds | 68.1 | 68.4 | 67.8 |
| Outpatient Visits (Including ER visits) | 315,021 | 325,083 | 333,070 |
| Mission Hospital Regional Medical Center, dba Mission Hospital | | | |
| Operated Beds ⁽¹⁾ | 297 | 297 | 283 |
| Discharges ⁽²⁾ | 15,939 | 16,656 | 18,214 |
| Patient Days ⁽²⁾ | 68,821 | 68,238 | 72,233 |
| Average Length of Stay | 4.3 | 4.1 | 4.0 |
| % Occupancy Based on Operated Beds | 63.5 | 62.9 | 69.7 |
| Outpatient Visits (Including ER visits) | 102,084 | 121,874 | 143,622 |
| St. Mary Medical Center | | | |
| Operated Beds ⁽¹⁾ | 177 | 177 | 177 |
| Discharges ⁽²⁾ | 12,932 | 13,248 | 14,610 |
| Patient Days ⁽²⁾ | 49,544 | 48,537 | 52,716 |
| Average Length of Stay | 3.8 | 3.7 | 3.6 |
| % Occupancy Based on Operated Beds | 76.7 | 75.1 | 81.4 |
| Outpatient Visits (Including ER visits) | 76,729 | 89,452 | 91,875 |
| SOUTHERN CALIFORNIA REGION TOTAL | | | |
| Operated Beds ⁽¹⁾ | 1,166 | 1,165 | 1,171 |
| Discharges ⁽²⁾ | 65,926 | 67,664 | 71,630 |
| Patient Days ⁽²⁾ | 287,538 | 284,225 | 292,939 |
| Average Length of Stay | 4.4 | 4.2 | 4.1 |
| % Occupancy Based on Operated Beds | 67.6 | 66.8 | 68.4 |
| Outpatient Visits (Including ER visits) | 727,787 | 793,986 | 832,241 |

⁽¹⁾ Includes skilled nursing, acute psychiatric and chemical dependency beds, where appropriate.

⁽²⁾ Excludes well newborns.

St. Joseph Health System and Affiliates
The Obligated Group Facilities
Acute Care Utilization
(continued)

| | Fiscal Year Ended June 30, | | |
|---|-----------------------------------|-------------|-------------|
| | 2006 | 2007 | 2008 |
| NORTHERN CALIFORNIA REGION | | | |
| Queen of the Valley Hospital of Napa, California | | | |
| Operated Beds ⁽¹⁾ | 165 | 170 | 173 |
| Discharges ⁽²⁾ | 8,183 | 8,752 | 9,321 |
| Patient Days ⁽²⁾ | 45,726 | 46,997 | 49,369 |
| Average Length of Stay | 5.6 | 5.4 | 5.3 |
| % Occupancy Based on Operated Beds | 75.9 | 75.7 | 78.0 |
| Outpatient Visits (Including ER visits) | 224,667 | 226,156 | 226,308 |
| Santa Rosa Memorial Hospital | | | |
| Operated Beds ⁽¹⁾ | 325 | 316 | 316 |
| Discharges ⁽²⁾ | 14,206 | 14,364 | 13,810 |
| Patient Days ⁽²⁾ | 78,491 | 79,585 | 73,382 |
| Average Length of Stay | 5.5 | 5.5 | 5.3 |
| % Occupancy Based on Operated Beds | 66.2 | 69.0 | 63.4 |
| Outpatient Visits (Including ER visits) | 186,245 | 186,845 | 185,398 |
| SRM Alliance Hospital Services, dba Petaluma Valley Hospital | | | |
| Operated Beds ⁽¹⁾ | 75 | 64 | 59 |
| Discharges ⁽²⁾ | 3,623 | 3,374 | 3,458 |
| Patient Days ⁽²⁾ | 16,394 | 13,471 | 12,386 |
| Average Length of Stay | 4.5 | 4.0 | 3.6 |
| % Occupancy Based on Operated Beds | 59.9 | 57.7 | 57.4 |
| Outpatient Visits (Including ER visits) | 58,493 | 56,430 | 51,708 |
| St. Joseph Hospital of Eureka | | | |
| Operated Beds ⁽¹⁾ | 125 | 125 | 125 |
| Discharges ⁽²⁾ | 6,237 | 6,210 | 5,973 |
| Patient Days ⁽²⁾ | 27,916 | 27,876 | 28,140 |
| Average Length of Stay | 4.5 | 4.5 | 4.7 |
| % Occupancy Based on Operated Beds | 61.2 | 61.1 | 61.5 |
| Outpatient Visits (Including ER visits) | 152,079 | 164,904 | 189,379 |
| Redwood Memorial Hospital of Fortuna | | | |
| Operated Beds ⁽¹⁾ | 35 | 26 | 25 |
| Discharges ⁽²⁾ | 1,656 | 1,593 | 1,681 |
| Patient Days ⁽²⁾ | 5,585 | 5,763 | 5,796 |
| Average Length of Stay | 3.4 | 3.6 | 3.4 |
| % Occupancy Based on Operated Beds | 43.7 | 60.7 | 63.3 |
| Outpatient Visits (Including ER visits) | 40,747 | 41,150 | 43,125 |
| NORTHERN CALIFORNIA REGION TOTAL | | | |
| Operated Beds ⁽¹⁾ | 725 | 701 | 698 |
| Discharges ⁽²⁾ | 33,905 | 34,293 | 34,243 |
| Patient Days ⁽²⁾ | 174,112 | 173,692 | 169,073 |
| Average Length of Stay | 5.1 | 5.1 | 4.9 |
| % Occupancy Based on Operated Beds | 65.8 | 67.9 | 66.2 |
| Outpatient Visits (Including ER visits) | 662,231 | 675,485 | 695,918 |

⁽¹⁾ Includes skilled nursing, acute psychiatric and chemical dependency beds, where appropriate.

⁽²⁾ Excludes well newborns.

St. Joseph Health System and Affiliates
The Obligated Group Facilities
Acute Care Utilization
(continued)

| | Fiscal Year Ended June 30, | | |
|--|----------------------------|-----------|-----------|
| | 2006 | 2007 | 2008 |
| WEST TEXAS/EASTERN NEW MEXICO REGION | | | |
| Covenant Lubbock Hospitals | | | |
| Operated Beds ⁽¹⁾ | 719 | 802 | 719 |
| Discharges ⁽²⁾ | 29,553 | 29,100 | 26,699 |
| Patient Days ⁽²⁾ | 166,458 | 166,518 | 164,656 |
| Average Length of Stay | 5.6 | 5.7 | 5.5 |
| % Occupancy Based on Operated Beds | 63.4 | 56.9 | 62.6 |
| Outpatient Visits (Including ER visits) | 274,605 | 270,048 | 273,643 |
| Methodist Children's Hospital, dba Covenant Children's Hospital | | | |
| Operated Beds ⁽¹⁾ | 46 | 46 | 89 |
| Discharges ⁽²⁾ | 2,332 | 2,454 | 2,900 |
| Patient Days ⁽²⁾ | 14,874 | 16,146 | 17,504 |
| Average Length of Stay | 6.4 | 6.6 | 6.0 |
| % Occupancy Based on Operated Beds | 88.6 | 96.2 | 53.7 |
| Outpatient Visits (Including ER visits) | 25,682 | 26,436 | 28,536 |
| Methodist Hospital Levelland, dba Covenant Hospital Levelland | | | |
| Operated Beds ⁽¹⁾ | 22 | 22 | 22 |
| Discharges ⁽²⁾ | 1,629 | 1,564 | 1,915 |
| Patient Days ⁽²⁾ | 5,243 | 4,577 | 4,550 |
| Average Length of Stay | 3.2 | 2.9 | 2.4 |
| % Occupancy Based on Operated Beds | 65.3 | 57.0 | 56.5 |
| Outpatient Visits (Including ER visits) | 35,181 | 34,952 | 36,303 |
| Methodist Hospital, Plainview, Texas, dba Covenant Hospital Plainview | | | |
| Operated Beds ⁽¹⁾ | 31 | 31 | 31 |
| Discharges ⁽²⁾ | 1,855 | 2,051 | 2,090 |
| Patient Days ⁽²⁾ | 6,888 | 7,785 | 7,865 |
| Average Length of Stay | 3.7 | 3.8 | 3.8 |
| % Occupancy Based on Operated Beds | 60.9 | 68.8 | 69.3 |
| Outpatient Visits (Including ER visits) | 49,859 | 51,455 | 71,345 |
| WEST TEXAS/EASTERN NEW MEXICO REGION TOTAL | | | |
| Operated Beds ⁽¹⁾ | 818 | 901 | 861 |
| Discharges ⁽²⁾ | 35,369 | 35,169 | 36,604 |
| Patient Days ⁽²⁾ | 193,463 | 195,026 | 194,575 |
| Average Length of Stay | 5.5 | 5.5 | 5.3 |
| % Occupancy Based on Operated Beds | 64.8 | 59.3 | 61.7 |
| Outpatient Visits (Including ER visits) | 385,327 | 382,891 | 409,827 |
| OBLIGATED GROUP TOTAL | | | |
| Operated Beds ⁽¹⁾ | 2,709 | 2,772 | 2,730 |
| Discharges ⁽²⁾ | 135,200 | 137,126 | 142,477 |
| Patient Days ⁽²⁾ | 655,113 | 652,943 | 656,587 |
| Average Length of Stay | 4.8 | 4.8 | 4.6 |
| % Occupancy Based on Operated Beds | 66.3 | 64.7 | 65.7 |
| Outpatient Visits (Including ER visits) | 1,775,345 | 1,852,362 | 1,937,986 |

⁽¹⁾ Includes skilled nursing, acute psychiatric and chemical dependency beds, where appropriate.

⁽²⁾ Excludes well newborns.

VI. OUTSTANDING DEBT:

| <u>St. Joseph Health System and Affiliates</u> | | |
|---|--|--|
| (000's) | | |
| <u>Bond Issue Name</u> | <u>Amount Outstanding As of 6/30/08*</u> | <u>Estimated Amount Outstanding after Proposed Financing</u> |
| <i>Existing Debt</i> | | |
| LHFDC**, Series 1998/ CSCDA Series, 1999, 2000, and 2007 | \$829,356 | \$829,356 |
| LHFDC, Series 2008A/ CSCDA, Series 2008 | 295,425 | 49,275 |
| LHFDC, Series 2008B | 136,185 | 136,185 |
| | 1,260,966 | 965,541 |
| <i>Proposed Authority Debt</i> | | |
| CHFFA Bonds, Series 2009 | | 480,000 |
| Total Debt | \$1,260,966 | \$1,494,816 |

*Includes current portion.

** Lubbock Health Facilities Development Corporation

VII. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- **Section 15438.5(a) of the Act (Savings Pass Through):** SJHS properly completed and submitted the “Pass-Through Savings Certification,” in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement):** SJHS properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations:** SJHS properly completed and submitted a description of its seismic requirements.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** SJHS properly submitted documentation to the Authority demonstrating the proposed project has either complied with Division 13 (commencing with Section 21000) of the Public Resources Code, or is otherwise not a project under that division.
- **Religious Due Diligence.**
- **Legal Review.**

EXHIBIT 1

The following project sites are relevant to this transaction:

- Mission Hospital Regional Medical Center
dba Mission Hospital
27700 Medical Center Road
Mission Viejo, California;
- St. Jude Hospital, Inc.
dba St. Jude Medical Center
101 East Valencia Mesa Drive
Fullerton, California;
- Queen of the Valley Hospital of Napa, California
dba Queen of the Valley Medical Center
1000 Trancas Street
Napa, California;
- Santa Rosa Memorial Hospital
1165 Montgomery Drive
Santa Rosa, California;
- St. Joseph Hospital of Eureka
2700 Dolbeer Street
Eureka, California;
- Redwood Memorial Hospital of Fortuna
3300 Renner Drive
Fortuna, California;
- St. Joseph Hospital of Orange
1100 West Steward Drive
Orange, California;
- St. Mary Desert Valley Hospital
dba St. Mary Medical Center
18300 Highway 18
Apple Valley, California